

Message Text

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C O N F I D E N T I A L PANAMA 4094

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TAGS: PFOR, ECON, PN
SUBJECT: POLITICAL/ECONOMIC CONDITIONS IN PANAMA

SUMMARY: EFFECTS OF PANAMA'S PROLONGED ECONOMIC RECESSION
ARE CONTINUING TO ERODE POPULAR SUPPORT FOR TORRIJOS. GOVERNMENT
ATTEMPTS TO DEAL WITH ECONOMIC AND FISCAL
PROBLEMS HAVE INCREASED
PRESSURE ON CONSUMERS WHILE ALIENATING STUDENTS AND LABOR.
TORRIJOS APPEARS SECURE FOR THE MOMENT JA HE RETAINS HIS BASE OF
SUPPORT WITH THE NATIONAL GUARD AND AT LEAST SOME AMONG THE LOWER
CLASSES, BUT CONTINUED ECONOMIC MALAISE WOULD FURTHER DIMINISH
POPULAR SUPPORT FOR THE GOP. SIGNING A NEW TREATY WILL NOT SOLVE
PANAMA'S ECONOMIC WOES, BUT CAN BUY TORRIJOS TIME TO DEAL WITH
THEM. WITHOUT A TREATY, THERE IS LIKELY TO BE TURMOIL ERE. END
SUMMARY.

1. THE POPULAR BASE OF SUPPORT FOR TORRIJOS' GOVERNMENT HAS ERODED

SIGNIFICANTLY OVER THE PAST YEAR. GROWING DISCONTENT STEMS MAINLY
FROM THE NEGATIVE EFFECTS OF PANAMA'S PROLONGED ECONOMIC
RECESSION ON PERSONAL INCOME AND EMPLOYMENT. IN OVERALL TERMS,

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PANAMA'S DISMAL ECONOMIC PERFORMANCE DURING 1976--ZERO REAL GROWTH
FOR THE YEAR--CAUSED A ROUGHLY 3 PERCENT DECLINE IN PER CAPITA
INCOME. AND THE RECESSION CONTINUES. MANUFACTURING, CONSTRUCTION
ACTIVITY, AND EXPORTS DURING THE 1977 FIRST QUARTER REMAINED
GENERALLY AT OR BELOW LAST YEAR'S DEPRESSED LEVELS, WHILE
AGRICULTURAL OUTPUT CONTINUED TO SUFFER FROM DROUGHT CONDITIONS.

2. IMPLEMENTATION OF THE GOP'S COMBINED AUSTERITY AND ECONOMIC RECOVERY PROGRAM STARTING LAST JANUARY (SEPTTEL) HAS ALIENATED THE PUBLIC STILL MORE. A SHARP RISE IN UTILITY RATES AND A 5 PERCENT VALUE ADDED TAX HAVE FURTHER CUT CONSUMER PURCHASING. LABOR CODE MODIFICATION HAS DECREASED EMPLOYMENT SECURITY AND VIRTUALLY ELIMINATED UNION ABILITY TO BARGAIN OR STRIKE FOR INCREASES TO COMPENSATE FOR DROP IN REAL INCOMES. THESE STRENGTHEN THE LITTLE GUY'S FEELING THAT HE IS BEARING THE BRUNT OF AUSTERITY.

3. ORGANIZED LABOR IS INCREASINGLY CRITICAL OF CHANGES IN THE LABOR CODE WHICH CUT INTO ITS MAJOR ACCOMPLISHMENT--THE RIGHT TO COLLECTIVE BARGAINING. STUDENTS ARE DISILLUSIONED OVER THE GOVERNMENT'S QUITE CONSERVATIVE, PRO-BUSINESS POLICIES. DISGRUNTLED STUDENTS ARE MUCH MORE INCLINED THAN LABOR TO ACT, IF CONDITIONS ARE RIGHT, TO CHANGE THE SITUATION. IRONICALLY, TORRIJOS' OVERTURES TO THE PRIVATE BUSINESS SECTOR, WHILE PRODUCING A LOSS OF SUPPORT AMONG OTHER SECTORS, HAVE FAILED TO SIGNIFICANTLY INCREASE BUSINESS CONFIDENCE IN HIS GOVERNMENT.

4. THERE ARE ALSO NON-ECONOMIC FACTORS WHICH WEAKEN THE GOVERNMENT'S POPULAR SUPPORT. THE ODOR OF CORRUPTION IS STRONG IN PANAMA AND INCREASINGLY SENSED BY THOSE EXPERIENCING FINANCIAL ADVERSITY.

GROWING PUBLIC APATHY TOWARD A GOVERNMENT THAT HAS BEEN IN POWER FOR ALMOST A DECADE IS NORMAL--AND IS HAPPENING. OLD TIME POLITICOS ARE INCREASINGLY RESTLESS, BUT THEIR ORGANIZATIONS AND PUBLIC APPEAL HAVE ATROPHIED DURING THE LONG PROSCRIPTION OF PARTISAN POLITICS.

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5. STILL, TORRIJOS HAS A RESERVOIR OF POPULAR SUPPORT, THOUGH IT IS DEPLETED BY THE VARIOUS FACTORS CITED ABOVE, THE POPULIST IDEOLOGY OF THE "REVOLUTION" HAS BEEN REFLECTED IN VISIBLE GAINS FOR THE UNDER-PRIVILEGED GROUPS IN PANAMANIAN SOCIETY,

PARTICULARLY RURAL GROUPS LESS AFFECTED BY RECENT GOVERNMENT

MEASURES LARGELY THE MONEY ECONOMY. TORRIJOS HAS KEPT THE HEAT ON THE GRINGOS, ALWAYS AN EFFECTIVE TACTIC FOR MOBILIZING PUBLIC SUPPORT. HE SKILLFULLY MANIPULATES A LARGE PUBLIC BUREAUCRACY FOR POLITICAL PURPOSES. TORRIJOS RETAINS HIS ABILITY TO EMPHATHIZE WITH THE COMMON PEOPLE, REGARDLESS OF HIS POLICY DECISIONS. THIS IS MORE A MATTER OF STYLE THAN OF SUBSTANCE; THE MASSES SOMEHOW FEEL THAT HE IS STILL ONE OF THEM. WHILE THIS RELATIONSHIP HAS DETERIORATED IN THE KEY URBAN AREAS, IT APPEARENTLY REMAINS STRONG IN THE COUNTRYSIDE.

6. MEANWHILE, THE NATIONAL GUARD REMAINS THE LINCHPIN OF THE

TORRIJOS REGIME. ANY LOSS OF SUPPORT THERE WOULD PUT HIM IN DEEP TROUBLE, PARTICULARLY UNDER PRESENT CIRCUMSTANCES. DESPITE SOME INEVITABLE INTERNAL RIVALRIES, THE GENERAL STAFF REMAINS LOYAL TO TORRIJOS. WHILE WE ARE LESS CERTAIN ABOUT THE SITUATION AT THE GUARD'S LOWER AND MIDDLE LEVELS, WE DOUBT ON THE BASIS OF AVAILABLE EVIDENCE THAT THERE IS ENOUGH DISSENSION THERE EITHER, AT THIS STAGE, TO DESTABILIZE THE SITUATION.

7. ON BALANCE, THE TORRIJOS GOVERNMENT APPEARS SECURE FOR THE MOMENT. HOWEVER, ECONOMIC PRESSURES ON THE POPULACE WILL PROBABLY INTENSIFY OVER THE NEXT SEVERAL MONTHS. REVENUE-PRODUCING MEASURES IMPLEMENTED EARLIER IN THE YEAR, COMBINED WITH THE RECENT SIGNING OF A \$100 MILLION PRIVATE BANK LOAN, HAVE AVERTED A GOVERNMENT FISCAL COLLAPSE. THEY HAVE ALSO DEPRESSED AGGREGATE DEMAND--AN EFFECT AGGRAVATED BY CONTINUING FISCAL CONSTRAINTS ON PUBLIC SECTOR SPENDING--WHICH TOGETHER WITH CONTINUING STAGNATION IN PRIVATE INVESTMENT, IS LIKELY TO FORESETTLE ANY GENERAL QUICKENING

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OF THE ECONOMIC TEMPO IN 1977. THIS MEANS ADDITIONAL DECLINES IN REAL INDIVIDUAL INCOME AND PROBABLY INCREASES IN UNEMPLOYMENT, PLACING ADDITIONAL STRAINS ON SUPPORT FOR THE REGIME.

8. THE SIGNING OF A NEW TREATY THAT AT LONG LAST ELIMINATES THE "COLONIAL ENCLAVE" MIGHT CONVINCE AN INCREASINGLY CYNICAL POPULACE THAT TORRIJOS HAD FULFILLED AT LEAST ONE OF FUNDAMENTAL PROMISES. ECONOMIC HARDSHIP COULD WELL BE TEMPORARILY FORGOTTEN IN THE EUPHORIA OF THE MOMENT. A NEW TREATY, HOWEVER, WILL BY NO MEANS CURE PANAMA'S ECONOMIC WOES. THERE ARE PRELIMINARY INDICATIONS THAT INCREASED REVENUES AND OTHER ANTICIPATED GAINS TO PANAMA FROM A NEW TREATY WILL SUFFER MAJOR OFFSETS IN THE INITIAL YEARS AS A RESULT OF TRANSITION COSTS AND OTHER PROBLEMS OF INTEGRATING THE CANAL ZONE INTO PANAMA. THE BEST IMMEDIATE HOPE IS THAT A NEW TREATY WILL IMPROVE THE BUSINESS CLIMATE IN PANAMA AND STIMULATE PROJECT PLANNING FOR THE EXPLOITATION OF NEW INVESTMENT OPPORTUNITIES OPENED UP BY THE TREATY.

9. BE THAT AS IT MAY, BOTH POLITICALLY AND ECONOMICALLY, A NEW TREATY WILL HAVE EFFECTS WHICH CANNOT BE PREDICTED. WHILE IT MAY WELL EARN TORRIJOS A BIG PLACE IN PANAMANIAN HISTORY AND WILL DOUBTLESS GIVE HIM A SHORT-TERM BOOST, IT WILL NOT NECESSARILY CONSOLIDATE HIS POWER OVER THE SOMEWHAT LONGER TERM--PARTICULARLY IF THE ECONOMY DOES NOT PICK UP FAIRLY SHARPLY. ON THE HAND, IF THE ACHIEVEMENT OF A TREATY SHOULD BE LONG DELAYED, THERE IS A VERY GOOD CHANCE OF TURMOIL HERE. AND THAT, TOO, COULD BE UNSETTLING FOR THE REGIME. IN EITHER CASE, TORRIJOS (AND/OR HIS SUCCESSORS) WILL HAVE THEIR HANDS FULL WITH ECONOMIC PROBLEMS WHICH DO NOT LOOK EASY IN THE SHORT, MEDIUM OR LONG TERM.

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